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DoD Budget Briefing
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Secretary of Defense William J. Perry
John Hamre, Comptroller
Ms. Kathleen M. deLaski, ATSD (PA)

Ms. deLaski: Thank you all for coming to our budget briefing this year. This is Secretary Perry's first trip to our Pentagon briefing room, so I hope you will make it an enjoyable experience for him.

He will offer a budget briefing, and then he will turn it over for more detailed questions to our Comptroller, John Hamre, who is sitting behind the charts over there.

This is a budget briefing. If you have questions on other subjects, I only ask that you defer them until after your budget questions. We'd like to take all the budget questions first.

Dr. Perry?

Secretary Perry: Thank you, Kathleen. Good afternoon.

I'm going to take, perhaps, an unconventional approach to talking about the budget with you. Instead of giving you large stacks of figures and charts and statistics, I'm going to try to explain to you what was the strategy behind the preparation of the budget. There are very few ways that the Secretary of Defense can influence specific actions that individual units take, but one way you can influence them is by the allocation of resources, by the determination of the budget.

So, in the most profound sense, the priorities we put to different programs manifests our statements about what we're trying to accomplish. So, let me start off then with the first chart which lists the five priorities which governed our preparation for this budget.

The first one will be no surprise to you. It implements the Bottom-Up Review force structure. We have been telling you for months that we thought the Bottom-Up Review was the architecture on which we would be basing the force structure. A fair test of this budget is...does this move us in the direction of the Bottom-Up

Review force structure. It does, and I will show you some charts to demonstrate that.

The second, we have also said, Secretary Aspin said and I've said, that readiness will be the first priority of this Administration. The question is, does this budget manifest that statement? Does this put reality to our rhetoric? I will try to demonstrate to you that it does that.

Third, also in the Bottom-Up Review we talked about the importance of maintaining modernization. The modernization of U.S. forces, the introduction of technology into U.S. forces has, more than any other single factor, given our very capable troops an edge, a technological advantage which enables them to fight and win quickly, and with minimum casualties to U.S. forces. This budget has a very special modernization program to do that, and I will describe that to you.

You will find that we have to do business differently. First of all, because we are in a major drawdown of forces. Our forces are managed differently. And secondly, because in order to preserve dollars in a tight budget, we have to shift over and do things more frugally so that less money is spent on overhead, and more money is available for force structure and readiness.

Finally, with the reduced budget we have an opportunity to reinvest defense dollars in other national needs, and we'll talk about that a little bit, too.

Let's get to the first, one which is the bottom up force structure. This chart simply repeats what you have seen before, reminding you of what the force structure is under the Bottom-Up Review plan.

The first column represents the force structure during the Cold War. The second represents the so-called base force determined by President Bush and Secretary Cheney. The last represents the force structure projected under the Bottom-Up Review.

Now in between these two you see the force structure reflected in the '95 budget, and you see it is making its move towards the Bottom-Up Review. Here in the case of Army divisions, we will be at 12 on the way to 10. In some areas, like Air Force wings...active fighter wings, we are there. We already have achieved the force structure of the Bottom-Up Review.

Now with this force structure, and this is the force structure which the Chiefs have determined was necessary to be able to carry out two major regional conflicts.

Implied by this is a set of personnel, manpower and womanpower forces. The next chart shows how that force structure flows into the manpower needs.

Now I have taken here four different periods -- '85, '90, '95, and the goals of the Bottom-Up Review, so you can see how we are progressing towards those goals.

Let me take the active military, first of all. This was the size, 2.15 million men and women during the Cold War. By FY90 we had gone down only slight from that. In this '95 budget we will have dropped to 1.5 million -- almost to the goal of the Bottom-Up Review of 1.46 million. At the same time we're drawing the military down, we're drawing down reserves, and we're drawing down civilians.

Two important points I want to make from this. The first, while it's not entirely evident on this chart, this drawdown is being done gradually and systematically -- not in big lumps. Because reducing the size of both active military and civilians is a painful process, both on the people that it concerns and on the management process of overseeing it. That works best if it's planned well ahead of time and if it's done in a gradual, consistent way. This plan does that.

The second point I would make to you is with the '95 reduction, we are almost at the end of the drawdown. That's a very important point. That's a point I emphasize when I go out to visit military forces who are very much concerned about the drawdown they've already gone through. What I can tell them is with this budget they're more than 80 percent there. They're almost at the end of the drawdown, and we expect to stabilize at this number, and with this number when we get there.

The next chart shows you what the fiscal implications of those manpower changes are. Here we have represented the civilians, and here the active duty military -- costs in constant '95 dollars. Two points I would like to make with respect to this. That is, for the entire period during the Cold War, right up until essentially 1990, there was very little change in the cost of personnel to the military. All of the reductions have occurred since 1990 and projected on to 1999. The difference, by the way, from this peak spending here in '85 to '99 is \$38 billion. So that's a very substantial swing of resources. That gives us \$38 billion with which to do other things.

The other point I wanted to make to you is that even though a top line budget today is essentially equivalent to what it was during the late '70s, the cost of personnel will be very much lower. As I will be pointing out to you when I get to the readiness, in the late '70s, we made a different decision. We decided to keep force structure, to pay force structure, and you'll see when you get to readiness, we

paid for it with a lack of readiness. That is, we paid for it with the so-called hollow force. This time we are consciously, and explicitly making a very different decision, which is bringing the force structure down enough so that we free up funds so that we can maintain, at a high state of readiness, all of the units in the smaller force.

Now I go directly, then, into the question of readiness. I want to make the point in several ways about what we are doing on readiness.

The first point I would make is that if one of our airplanes breaks down or one of our combat battalions is not at a full state of readiness, there is nothing that I, as the Secretary of Defense, can do about that. That's done by our units in the field. It's done primarily by our services in planning for the training and equipping of our forces. What the Secretary of Defense can do is allocate resources to the services so that they have adequate funds to take care of that problem.

You have all heard anecdotes about this ship having a problem, or that airplane having a problem, or this battalion not being properly equipped. This is what we are trying to do about it. First of all, just one set of comparative facts here. Our force structure this year is down seven percent. Our O&M funding, which is the principle factor which determines readiness, operation and maintenance funding, is up 5.6 percent. So, even though the force is going down, we are putting more money into it. I'll get to that point more later, but that's the first one.

Secondly, this budget fully funds all the services requested in the so-called OPTEMPO, and this is what determines more than anything else-the state of readiness, the training of our forces in the field.

We worry about equipment not being prepared properly. We hear stories about long lines of equipment waiting for maintenance and repair. In this budget, even though we have fewer weapons than we had last year and the year before, we are increasing the maintenance funding 20 percent.

Finally, all of this depends on attracting and sustaining high quality airmen, sailors, marines, soldiers, and we maintained a steady budget for recruiting. A parenthetical point here, our recruiting last year was our second most successful year in the many decades we have been keeping records, both in terms of achieving the quantity, and in terms of the quality of the recruits brought in.

Let's take those selected numbers and look at them a different way. I have to start off by saying that there's no single set of numbers I can give you to capture this readiness problem. It's a very complicated issue. Here's one attempt to encapsulate for you in a way that I think you can understand most easily.

I've taken representative units in the Army, the Navy, and the Air Force. In the Army I chose combat battalions; in the Navy, ships; and in the Air Force, aircraft. I said for the number of aircraft we now have in the Air Force, if I divide that into the total O&M account, how has that trended from '93 to '94 to '95? This is the budget we inherited, and this doesn't mean \$100 million, this is just a baseline. The reference is a level of 100. Today, we are putting more than 12 percent more per aircraft than we did in 1993 in O&M. We're putting 11 percent more in ships; and we're putting 14 percent more in O&M per combat battalion in the Army.

One other way of representing that is representing it as the number of dollars we spend per person in the Army, Navy, and Air Force. So, here again, taking '93 as the baseline year, in '95, the O&M dollars we're spending, per person, in the Army is nine percent more; nine percent more in the Navy; and interestingly, 17 percent more in the Air Force. The Air Force has concluded they would increase their spending of O&M to the extent that it's a 17 percent higher, per person, than it was just two years ago.

So, these charts are meant to reflect that we are serious about sustaining readiness, and that we are putting our money where our mouth is. It does not guarantee that you will not hear anecdotes, as time goes on, about a battalion not being ready or about a ship having a radar that doesn't operate.

That's what I wanted to say about O&M. Let me now go to the modernization program.

These are the points which Dr. Deutch thought were the most important to make about the modernization program that he put together. The first of which sounds like motherhood -- sustaining a strong science and technology base. What he means by that, as we will see in figures in a moment, that he is willing to take money out of his procurement account in order to sustain R&D. You'll see that manifested in the numbers here in just a minute. This is not a motherhood statement. This is a reflection of an action which we took which shifted money from one account to another.

We continue to invest in the next generation weapon systems, but very, very selectively. Only a few systems are we going ahead with today.

We have refocused, as you know, the Ballistic Missile Defense Program. Dr. Deutch wanted me to emphasize here that in the world we are now in, there is more reason than ever for having a strong intelligence program, and that we should not

simply proportionately cut intelligence the way we are cutting other items. This budget also reflects that. In fact, I would say more generally, the traditional way of cutting budgets in the Pentagon for decades has been everyone takes their -- this wonderful term -- "fair share." Which is you have a percentage reduction you're trying to make and you just allocate that all through the force.

This budget is the opposite of that. We have used this budget to reflect our priorities and to act on them by making the money act accordingly.

Finally, there are certain key elements of the industrial base which would have disappeared if we had not funded them. The one which has the most controversy here is the decision to fund the Seawolf. We are funding the Seawolf in this budget, and we have heard many arguments that we should spend the money in different ways. We are doing that because we know in the next decade, in the next century, we will need to be building nuclear attack submarines again, and we fear that if we stop building them for seven or eight or ten years we will never be able to reconstruct that facility adequately.

I would be happy to discuss and debate that issue with any of you at any length. I have given a lot of thought to that. This was not a decision which we made lightly at all.

Now let's look at some specifics on this. This is a very dramatic chart. This is the dollars we spend. I have this, again, in constant '95 dollars so you can get a true picture of what the trends are. This shows you several interesting things. Let me look at the R&D budget first of all.

The R&D budget is down somewhat from the peak of the Cold War spending, but not very much. And I should mention that within the R&D budget, the science and technology component is actually higher than it was then.

The other point is that even though the total budget today is about what it was in the '70s, if you look at this number and this number, you will see that our R&D is substantially higher today in real terms than it was during the '70s. This is the period when we were developing all of the systems which later were produced and deployed and performed so well in Desert Storm. We had the R&D then that was capable of doing that, and we have a higher level of R&D today, so we are not mortgaging the future with this budget.

How do we pay for that? How we pay for that is reflected in this chart. Here we are at the end of the Carter Administration. This number started to go up. In the Reagan Administration it went up to a peak in 1986, and it has been

precipitously dropping since that point. Until today, it represents that little wedge we're looking at here. It is less than a third; the procurement budget is less than a third of what it was during its peak. So this is an enormous reduction in procurement.

I have to stop for a moment to defend that decision, because this is the really dramatic change we have made. It's ironic, I think, that people, many critics had questions, whether because of my technological and equipment background, I would be able to make the decisions favoring readiness, favoring troop support over procurement. This chart answers that about as well as I know how too.

The rationale we made for dropping this has two components to it. First of all, we can quite clearly reduce the quantities of equipment we buy because we have fewer forces. If we're reducing our force structure one-third, we can reduce the equipment we buy one-third. Let me give you a particular example of that, attack submarines.

We had a force of approximately 90 attack submarines. In the Bottom-Up Review we're projecting a force of about 45 attack submarines. Well, submarines last about 30 years, so for many years during the Cold War, given that we wanted 90 submarines, you can do the arithmetic. If they last 30 years, you need to build three a year in order to sustain that force. But if you only want an inventory of 45, you can get by with building one and a half a year or two every three years. So you can cut the expenditures in half, just on that basis alone.

But there's another point, and that is there's a transition period when you're going from 90 to 45, and during that period you can build far fewer, because you have a backlog, you have an inventory you can live off of for a few years. That's what we're doing in here.

This low number reflects both the fact that we are going into a lower steady state, and the fact that for a few years we can get by at even lower than that steady state level.

You notice that the procurement budget starts going up again after that, as we come out of that transition period. So that reflects the procurement budget: why it has that very dramatic shape to it, and how it reflects the priorities that we have.

This states it in even more dramatic fashion. Here we're not looking at dollars, we're counting the number of ships we're buying, aircrafts, tanks, strategic missiles.

Let's look at ships, first of all. In 1985 we were buying 29 ships a year. This year's budget calls for us to buy six. Remember, it's both of these points. We're both going to a fewer number of ships in the Navy -- going down about half, and we have an inventory which we can live on for a few years. This number will have to go up a few years later.

Aircraft, down 86 percent -- from 943 to 127. Tanks are a remarkable number. In '85 we built 720; this year's budget we have zero.

Just to clarify that point, why we are not building any new tanks, we have a substantial amount of funds in that budget for upgrading the M1 tank to the latest version of the M1 tank. That is one way of keeping our industrial base alive as well as getting better tanks. The other way of keeping the industrial base alive is what I described to you on the Seawolf.

On the tactical aircraft, we are still building or developing enough aircraft that those orders still sustain an adequate tactical base.

With all of this, and particularly the dramatic reduction in procurement numbers, we must do business differently. Many of you have heard me talk, even lecture, on the subject of acquisition reform. I'm not going to turn this into a lecture on acquisition reform. Simply to say that this year we'll launch a definite, serious campaign to make dramatic changes in the acquisition process, which in time will lead to more efficiency and reduce costs for units of equipment we are buying. A little bit more about that later.

We have a similar program to make dramatic changes in our financial management system. And as you all know, we have been closing bases, and we expect to close more bases, so that we can free up money that is being spent for overhead to do other things in the budget.

All three of these together are intended to free up funds in the latter part of this decade -- '96, '97, '98 -- so that when we reach this stage of buying more equipment, the procurement account, we are freeing up funds so we can do that. I should emphasize to you, though, so there can be no misunderstanding, we save nothing on any of these three this year. On the contrary, in the base closing and the financial reform, everything we're doing in that area in these two years costs us money. We actually have expenses in this budget associated with the cost of closing down bases, and associated with introducing the new systems we need to improve our financial management. So we have to make a front-end investment in '95 in order to get some of the savings that will be coming in the out years of the budget.

The final point here has to do with environment. I make two points with this line here. The first is that we're spending almost \$6 billion this year on environmental restoration -- complying with the law, cleaning up the environmental problems which we have created over the last decade. That's not a matter of judgment or decision, it's just a matter of complying with the laws and regulations in that area. But we also have underway a vigorous program in pollution prevention so that in 1998 and 1999 we don't have, we're not building up problems which are going to cause our expenses to go even higher.

When all of that is said and done, we still have some money in this budget for what we call defense reinvestment. It comes to about \$3 billion. This is not a WPA program for the defense industry. The technology reinvestment program is developing technology of great importance to the Defense Department, but it's done in such a way that it will also be useful to building commercial products. It's specifically designed to encourage the use of defense technology for commercial products. All of these programs have that nature. They have dual use, dual significance to both defense and commercial. And instead of ignoring that, or instead of denying that phenomenon, we are deliberately trying to enhance that dual effect.

With that small part of the reinvestment into the community, the bigger part, of course, is that which goes out of the Defense Department into other funds, or into saving the deficit. There again, those who say the Cold War has not reaped sufficient dividends for the rest of the government budget or for the economy as a whole, this reflects, as well as I can see, what has happened since the end of the Cold War, towards the portion of the gross national product occupied by the federal budget. From 6.3 percent in 1986 down to 3.7 percent today, on its way down to 2.8 percent. So in terms of occupying its portion of the gross national product, less than half of it will be occupied defense by the end of this decade as was occupied in 1986. This is a massive shifting of funds from defense to other areas.

All of this then, sums-up to a set of dollar numbers. There is nothing remarkable about these numbers. We have books this thick which list these numbers in infinite detail behind them. But it does show you what the top line of the DoD budget is in '95 -- \$252 billion; plus the DOE programs we support; for a total of \$263 billion. And it reflects our projection for how that will go on out to the end of this decade, in fact the end of this century.

Notice, we are projecting two more years of substantial cuts in the defense budget, and then it starts turning around, I should say really it flattens out at this point. The reason for this flattening out is the need by the end of the decade to start making more investment in procurement and the modernization of equipment

as we no longer have that inventory buildup that we can continue to live on. These numbers reflect the comparable figures and outlays.

To summarize then, this budget is more than a budget. It is a strategic investment plan. What I've tried to share with you this morning is the strategy which drove us, particularly, to the particular decisions we made.

The second point I'd make is it is based on a common understanding of those strategic needs. The great value of the Bottom-Up Review is it gave ourselves, the other members of the Executive Branch, the Congress, and the public a common language for discussing what our strategic goals were, and finally, how we could connect that strategy to a force structure and to the dollars that would be required to support them.

Now when people argue we should not spend this much money, or have that much force structure, we have a frame of reference for discussing it. What we are trying to do is achieve the Bottom-Up Review; here is the strategy we've chosen to do that.

With those introductory comments, I would be happy to entertain questions. You may have questions outside the budget. I'd like to limit the early questions to just budget questions.

Q: Mr. Secretary, you assured European leaders, at a meeting in Munich this past weekend, that the United States was not so enamored of the prospect of democracy in Russia, or the former Soviet countries and that you were not prepared for a reversal of the current trends. Could you tell us how, aside from the two regional conflicts, how the budget and the projected force could address a reversal in the trend in the Soviet Union now.

A: The answer to that is complicated, but let me take a few highlights to illustrate the point. First of all, the commitment to sustain an industrial base, to build nuclear submarines. If we thought we never had to face a super power again, we could have imagined a force structure in which our nuclear submarines just went out of the force. We did not think it was responsible for that conclusion. Therefore, we are taking the steps -- and they are very expensive steps -- to sustain the ability to build nuclear submarines, so, if we ever need them in the future we will have the capability to build them.

The other example is the investment we are making in the science and technology funds, in particular; and more generally, our R&D. We could argue, for example, that for the foreseeable future we will never be involved in a conflict in which the F-15 is not capable of defeating any airplane that we will see. But in the

meantime, we know that the Russians have very capable aviation technology, and we are concerned with two points there. One, if there is a resurgence of that threat, that capability could ultimately be a threat against us. And even more immediately than that, they are selling this capability -- the technology and the airplanes -- to other countries.

Therefore, we continue to make a very heavy investment to get to the next generation fighter aircraft. One of the single most important lessons of Desert Storm, among the many lessons cited, is that air supremacy is good, but air dominance is better. Air dominance saves lives, it shortens wars. That's the position we want to be in. That's why we're pushing that program.

Q: How about in terms of sheer size of forces? The Republicans are saying that the forces are being cut too much in terms of people power, numbers of planes, and numbers of ships. Are you convinced that the numbers that you will come down to, or even in the bridge, will be enough to address any resurgence of communism?

A: A resurgence, which faces us six months from now with a military force like the old Soviet Union...the answer would be no. We don't see the prospect of a resurgence coming on that quickly. We expect to have some years to respond to it. Therefore, we tend to put our emphasis here on what I'll call our reconstitution capability, on those items which have a long lead time associated with them. We invest in the science and technology base because it would be a long, long time to try to rebuild that again if we have to. We invest in readiness for that same reason.

Readiness has two very important aspects to it. The one which is easy to understand, if we get in a major regional conflict six months from now, you want your troops to be ready to do that. But it's also true that if we once write-off the readiness of our forces and we go back to the hollow force, we go back to the unready force, there is a shattering of morale, there's a shattering of fighting spirit, and it's just impossible to predict how long it would take to reconstitute our military forces as the highly professional, very effective force they are today. That's a long time to build too. Just measure how many years it takes to develop and train a first class professional battalion commander, or brigade commander. You're talking about 10, 15, 20 years in this process.

Q: Do you have a figure for the program terminations that you do have in the budget? Also, what do you say to those, such as Mr. Dellums on the Hill, that your budget still contains too many costly programs such as MILSTAR, V-22, those types of things?

A: I'll defer the first question to Mr. Hamre. I'll accumulate some questions to pass to John to follow up when I'm done here. The second part of that

question I'll answer directly, though. In fact, what I did say to him when I had breakfast with him this morning, on that very question, is that there are no Cold War relics in this budget. Those have been expunged long ago. They could not survive the kind of budget pressures under which we were working.

Some people call the Seawolf a Cold War relic. I've tried to explain why I don't consider it that.

Some people consider MILSTAR a Cold War relic. We have totally, beginning already with the Bush Administration and continuing under this Administration, completely reconfigured that system so that many of the factors which made it so expensive, which is the ability to withstand nuclear blasts and so on, those features no longer exist in MILSTAR. What does exist in MILSTAR is the ability to connect our tactical units worldwide with high quality, high resolution, digital data, so they can pass demands back and forth, they can pass targeting data, they can pass intelligence information, and it does it in such a way which is highly resistant to interference, such as jamming.

I've discussed many times with our Joint Chiefs of Staff how important that capability is to them. Because I would like, when I was putting this budget together, I wanted very much to find a way of saving some money to do other things, and they continually reassert the need for that, just as they continue to reassert the need for the air mobility which is reflected in the C-17. So each of these programs has had that kind of very careful scrutiny.

Q: I have a budget question and a non-budget, but if I'm only going to have one question, I'd prefer to give up my budget question and opt for the non-budget.

A: We'll put you first in line for the non-budget questions.

Q: Thank you, sir. I'll wait.

Q: A budget question. In an interview reprinted in last Tuesday's Early Bird, John Deutch talked to the absolute necessity of making savings from the three categories of doing business differently. He talked about acquisition reform, infrastructure reduction, and financial management. He said through infrastructure reduction alone, you're anticipating saving \$19 billion through the life of the FYDP. He said if we don't make those numbers, we don't have the resources to do the Bottom-Up Review. Those sound like massive negative wedgies, of a very old fashioned kind, going into the budget. What are the savings you anticipate from those three elements of doing business differently?

A: Let me talk about this in two different directions. First of all, we're looking, indeed, at a \$20 million deficit in our budget over the out-years. Not in the

'95 budget, but in the out-years. By deficit, I mean we cannot identify the programs which are going to give us the money. The big chunk of that comes from a revised estimate of inflation. So, solution number one is to be optimistic and hope that we will get a better inflation figure when the time actually arrives. We cannot count on that, but that is a possibility.

Solution number two is to achieve management reforms which John was describing to you. And while we believe we will have great success in those, we cannot at this point, put a number on them, and therefore, we had not made them as a line item in this budget. I believe that by next year, when we put the budget together, we will be able to do that. When we do that, that number, conceivably, will not add up to \$20 million over the period of the budget, which will give us then still a problem.

Third is, if we still have a problem at that point, we have to go back and look at some of the programs we have and maybe give up some which are on the edge, that somehow made it this year, but might not make it the next year.

Finally, if all else fails, we have to go back to the President and say we need more money in this budget to execute the Bottom-Up Review, which we have all committed to execute. That is a last resort, but it is not an impossible resort. In fact, that's exactly what we had to do this year. I don't have the numbers in front of me now, but the reason that the '95 budget did not show the decline that the other budgets showed is that we had to get back to the President and ask for more money, and we did it primarily because of the pay raise, which was put in by the Congress and the out-year tails from that. When the dust settled on that, the President gave us that extra authority and we got the money.

Q: You said in your Blue Top that this budget draws the line against further defense cuts. What is that line? Is it \$120 billion over five years? And part two, what will happen if Congress decides to cut further than what you're projecting?

A: It depends on where they cut, of course. It's always a temptation to cut outlays, and then when we translate that to obligation authority, we have to modify that by some factor because some programs spend faster than other programs. That leads us, then, to a temptation to cut readiness, to cut O&M accounts. So, one possible problem is that we will suffer some readiness if that happens.

When that happens we can resort to various actions, the most obvious of which is to fight the action, and we have done that most recently by going back to the Congress with a request for a supplemental appropriation, specifically, to

overcome the readiness problems that were caused by the unplanned operations in Somalia, Bosnia, and Iraq in the last year.

My best judgment is that the Congress will support this budget. Not in every detail, but on the themes that I'm striking here and the priorities that I'm striking, I believe we will get agreement on the Congress that these are the right themes, the right priorities. And therefore, once we have that agreement, now we're arguing can you do it for the amount of money you say, or does it take more or less? We can always disagree on that.

I am optimistic we will get good support from the Congress in the budget this year. We got good support last year. It differed in details, but we got good support for the top line. And most recently, we're getting good support on our request for supplemental appropriations.

Q: Do you have a figure for the aggregate cut that this will be over five years? Is it \$120 billion?

A: I'll pass that question on to our Comptroller section over there. Maybe by the end of the session he'll have a number for you on that.

Q: What infrastructure reductions do you anticipate? You said in both speeches that we've reduced infrastructure by 15 percent, but (inaudible).

A: You mean base infrastructure?

Q: However you want to define it.

A: The base closing is one of the big chunks of the infrastructure. We had a big cut in bases in the '93 so-called BRAC, the Base Realignment and Closing Commission. That amounted, as I remember, it was about 15 percent of the total capital value of our bases in those cuts.

We have one more BRAC ahead of us in 1995. We have intensive efforts, studies going on both within the services and within the Office of the Secretary of Defense, not only to determine the proper size for that base closure recommendation, but how to allocate it among the various functions we have to perform. We're not close to a judgment on that point yet, either on the size, or on the specifics of it.

Notwithstanding, our desire to save money on infrastructure, we have to take account of impact on the community; we have to take account of the fact that the first few years this base closing is costly. Also, we have a heavy commitment, and one which we are manifesting as responsively as we can, to help the military people involved, and help the communities involved in smoothing over the problems, and

helping them get a re-use program. We have a lot of people working on that program. It's a question of how big an effort we can take at one time and still perform a useful assistance to the communities.

Q: The crisis in Korean indicates one of our continuing weaknesses is missile defense, and some of the criticism already coming out of Congress and the think tanks around town is that you're not refocusing your priorities where we are likely to fight, and that would be a war where the other guys would have some form of ballistic missiles, and yet you're cutting the BDM program something like a billion dollars over the next five years. How do you respond to that?

A: I respond to that by saying that criticism is unfounded. We're spending more, I repeat, more on theater missile defense than any previous Administration has spent. What we are doing is refocusing the money away from the space-based systems, and even away from the ground-based national missile defense systems, to theater missile defense. We have a robust program in theater missile defense, and we will arrive at high quality operational systems in theater missile defense in a few years. In the mean time, we are upgrading our Patriot system, and for the use for which that system was intended, which is providing point defense for military targets, it will be quite capable.

Q: You say that in operation and maintenance that you're going to increase the amount of money per person, spent for a person in the military. What do you mean by that? What are you going to do for them?

A: What we are doing, and let me be very clear on that, we're not increasing it per person; we're increasing the amount of money in O&M. I just chose to represent to you how it would look if you divided the total number of people and the total amount of O&M. That's one yardstick for assessing how serious we are about increasing O&M. A yardstick looking just at the absolute O&M dollar increases is misleading because if you only have half the size force, then obviously that half the force is getting a richer allocation of O&M money.

I did not mean to suggest to you that our decision was based on a per person basis. That is not correct.

Q: You talked a lot about improving readiness. I'm not sure I understand why. The building has been studying readiness for almost a year now in two panels. Were there specific areas that you saw in readiness that were lacking, that led you to add this money in? Has the study come up with any specifics for you yet?

A: Yes. Without specifically drawing myself into what the panel is concluding, not only have they been looking at this question, but the services look at it all the time and have assessments of it every month. I've been reviewing this with the services as well as the readiness panel.

There are several important indicators that it does not take a panel to find. We have an increasing backlog of equipment in the maintenance depots waiting to be repaired. That's a number easy to measure, and that number has been going up. So you saw that reflected in the 20 percent increase in money going into maintenance depots.

We had, at the end of the third quarter, third calendar quarter last year, we were looking at that stage of a decline in the quality of recruits that we were getting. We also were seeing then, and still see, a decreased propensity for people to enlist in the armed services. This was happening while our recruiting budget was going down. So one of the specific actions we took already in the last quarter of last year was to increase the recruiting budget. What this '95 budget reflects is sustaining it at that higher level.

So there are lots of indicators around there, not so much saying there's a problem today, as saying things are happening which could cause you a problem a year from now or two years from now.

The best measure that I have of today's readiness is by talking to our CINCs, talking to our Commanders in Chiefs in the field. They are there, they are working with these troops every day. I met yesterday with General Joulwan, I met with Admiral Borda, I met with General Maddox, and the first question I asked each of them is what is your readiness level? What is the spirit? What is the fighting quality of the troops you have? What is the readiness of the aircraft and ships you have? I got from them a report, they are ready, they have a high level of readiness. That's something which gives me a warm feeling about today, but I also have to look at those indicators which say we may have a problem building a year from now or two years from now.

Q: If I can just follow up very quickly, in your top line chart, you show about a \$12 billion additional decline, I believe, by '97. Are you satisfied you can maintain both readiness, procurement, and R&D? And where is that \$12 billion going to come from, if not from at least one of those areas? If I'm reading the chart correctly.

A: I'm not sure which...

Q: That's \$252 down to the \$240.

A: Will you put that chart back on?

Q: Is this coming down for the Bottom-Up Review? The very top line, \$252 down to \$240 by 1997.

A: \$252 to \$243,

Q: Where are you going to get that kind of money from?

A: Some of it comes out of force reduction, for one thing. John, any big sweeping comments besides the force reduction?

Hamre: That's when we finally hit the bottom.

Perry: This is the last year of the drawdown, and that's why things start leveling off here. And as I pointed out, they start going back up again because of our need to fund procurement.

Q: What's the long term outlook for the F-16, if there is one? Is this termination forever, or is there a likelihood of a restarting either for industrial base reasons or to replenish the inventory?

A: Two different facets of that. First of all, the future of the F-16 depends, to a great extent, on foreign military sales. It's a very popular airplane in overseas countries, and we will probably be building them, and certainly maintaining them, for many years to come not only for our own forces, but for overseas forces.

Secondly, if we have a contingency that comes up that requires us to increase our force, and if that industrial base is still there, that line is still there, then the U.S. military itself can increase orders of the F-16. We'll have that capability for some years to come.

Q: All along you've said about this \$20 billion shortfall that OSD will deal with it later in the year, check out the inflation estimates. What position are you in in terms of dealing with that if this year's inflation estimates are also wrong? Do you take them all out at once and get the \$20 million and then wait for next year to...

A: When we put the budget together next year we'll get the CBO inflation estimates at that stage. We will use those. Having used those, we are stuck with them, and we will have to then draw our budget based on those numbers. If they go down, that relieves our problem for '96. If they go up, it aggravates the problem. It could go either way, certainly. With the action of the Federal Reserve Board a few days ago, it suggests there is some possibility they may go up again.

So either way that goes, that will influence what we have to do on the budget. If they go up again, we cannot ignore that, we have to take that into account in our budget. Then we have to either find efficiency savings, cut programs, or get more top lines. Those are the only three alternatives open to us that are significant.

Q: The defense conversion efforts. The Clinton Administration has put a substantial amount of money into that. A two-part question. One, do you see them as adequate? And two, as the defense budget continues to decline, they're reaching the bottom, I guess, in FY97. Do you expect those efforts to therefore, increase sort of in a commensurate fashion?

A: There are different components to that effort. One of them is the technology reinvestment program, and that is slated for increasing both in the '95 budget and I would anticipate that's going to increase in the out years, too. That's been a very successful program, both from the point of view of the Defense Department, and from the benefits that the overall economy gets.

Q: You mentioned that the drawdown is being done gradually, and yet you're going to cut 90,000 people out of the force structure by the end of '95. Then only 70,000 over the next four years. Why are you making this deep of a personnel cut in '95, and not spreading the pain over those five years?

A: I don't know the answer to that question, why that particular discrepancy. Our guidance from the Services, the Services put their own numbers together, so our guidance from the Services was to do it gradually and consistently from year to year. John, do you have any additional input on that?

Hamre: The Services had a premium on getting the end strength down earlier so it could make room so it could continue to fund readiness for the smaller force structure, and then divert the dollars over to investment in the out years of the FDYP. So it was very much a conscious choice to front end, get the end strength down early.

Perry: It's their judgment and not ours as to if they felt that number was too deep in terms of the turbulence. No matter how well you do this, you create turbulence, by either drawing down or going up in your forces. We depend on their judgment for what the right level, rate is.

Q: Mr. Secretary, the statement issued Saturday said that the counterproliferation initiative with \$30 million thrown in this year, would enhance your ability to stop or respond to the spread of nuclear weapons.

A: Yes.

Q: What does that mean?

A: Most of our efforts there are pointed to getting to the source of the technology, the fissile material, and the weapons themselves. So a lot of that effort is spent working with the Russians, working with the Ukrainians, trying to be sure

that the weapons, the materiel, the technology, the people are kept under adequate control.

We have, for example, a considerable effort in assisting in the dismantling and the transfer of the weapons from Ukraine to Russia. We have offered to buy; in fact, we've agreed to buy the highly enriched uranium which is in those weapons so it will not get out to other sources, and we will reprocess it and then sell it for fuel for nuclear power reactors. There's a whole set of programs like that designed to get directly at the source of the technology and material so it's not so likely to get out.

Q: Your aircraft program doesn't quite compute for me, so maybe you can explain it. On the one hand, you can't identify a threat to justify the F-22, but say it's kind of good insurance. On the other hand, the Navy is building and you're funding a very different airplane, the F/A-18. Would it make sense to just let the Air Force use the F-18? How can you justify building both those planes when there's no threat to justify an F-22?

A: The F-18 in no way meets the need of the F-22 in terms of a next generation air superiority fighter. In particular, the F-22, aside from some aerodynamic performance advantage over the F-18, most importantly, it is a stealthy aircraft which the F-18 fundamentally is not and cannot be. We have introduced signature reduction features into the latest generation of the F-18, but you have to design, as you know, George, a stealth aircraft from the ground up.

So what gives the F-22 its unique advantage as an air dominance fighter of the future is that any aircraft that it comes up against, any air defense systems that it comes up against, it will be essentially invisible to, and that will give it the power to dominate the air battlefield that the F-117 had over Iraq in a much more limited application. The F-117, of course, is not an air superiority fighter. It's an attack bomber. It performed that function very, very well, and performed it without losing any aircraft. But if we were involved in a war in which the other side had an air force and chose to use it--which the Iraqis did not, then we would have to establish air superiority, and the vehicle for establishing that today would be primarily the F-15. The vehicle in the future would be the F-22. And its biggest distinctive advantage over the F-15 or any other airplane in the inventory today is it cannot be seen by the radars--either the ground air defense system or the radars that drive the air-to-air missiles.

Q: If stealth is good for the Air Force, why isn't it good for the Navy?

A: It is good for the Navy. That's why they proposed the A-12 program. It was intended to perform that feature. Were it not for programmatic problems

that occurred during that time frame, we would be proceeding with a stealth Navy program as well. That was a failure of execution, not a failure of concept.

Q: What's happening with combat identification? One of the big lessons out of the Gulf War was the need for minimizing friendly casualties and you yourself have mentioned at the beginning of your briefings. But last Fall, the Army offered up as a sacrificial lamb, most of its combat ID money. What's the fate of that effort in '95 and the out years?

A: Let me offer you an opinion about that, which I'm not positive the Army would completely subscribe to, so you might ask that question to them also. They still have some R&D effort in the combat identification field. But there are two alternatives, fundamentally different alternative ways of combat identification.

Let me take the care of aircraft, first of all, and then apply it to the ground.

In aircraft, for decades, ever since WWII, we strived for something called an IFF system which is a beacon put in the airplane which sent out a code and you picked up that beacon and you knew whether it was a friend or foe -- Identification Friend or Foe is what IFF stood for. Literally for decades we kept saying we were going to equip our aircraft with IFF, and we never did. Partly because of the cost, and partly because of some tactical and conceptual difficulties in using them, not the least of which is that you are sending out a signal which is calling attention to you.

The alternative which we have settled on for aircraft came after the AWACS was developed and deployed. The AWACS maintains a panoramic view of all of the aircraft in the theater, and once it identifies every aircraft by various means, then it keeps tab of them. As aircraft move around, once it's been tagged as a friend, it's kept as a friend. So it doesn't have to go through this reidentification process. This is what the Air Force calls situational awareness. It's situational awareness which we use today, instead of an electronic gadget on the airplane, to do that.

Transfer that down to that ground. In Desert Storm we had a problem with that, we tried to deal with that in various ways, by putting stickers and markers on tops of tanks, various devices. The big problem is they're easy to decoy, easy to countermeasure. We have considered developing an electronic device. That's the program which got scrapped. It has the same conceptual problems that the Air Force IFF had.

In the mean time, we have developed the Army equivalent of AWACS, and it's called Joint Stars. Joint Stars provides a panoramic view of the ground battle which is equivalent to what AWACS applies to the air battles. It provides the basis

for conducting continuous situation awareness of all the vehicles on the ground. And philosophically, I believe that's the direction we're going in combat identification.

Pardon me for the long answer. It's an interesting subject, though.

Q: With regard to the JAST program, do you see that as kind of a defense industrial base preservation program...

A: No.

Q: Or are you really trying to make that a hard ware program...

A: Yes.

Q: If so, why is it fairly limited in the funding provided for it?

A: Because of the stage of the program. It's still in the early stage of development. But we see one Department of Defense program for developing the electronics and the armament, the combat suite that's going to go with that airplane; and then we see a separate airframe development for each of the services involved. The airframe developments are several years in the future. They're still in the planning and early R&D stages. That won't get into substantial expenditures and funds for several years downstream.

Ask that question of Dr. Deutch the next time you see him. You'll get a more detailed answer to it.

Q: In talking about your emphasis on the science and technology base (inaudible) money, you compared the situation in the '90s with the situation in the '70s. In the '70s the R&D produced stealth, PJAMS, things we saw in the Gulf War. What do you see coming out of the '90s in terms of the winners in 2010?

A: To oversimplify, there will be a host of subsystems that exploit the modern developments in information technology. Even since we developed these electronically based systems in the late '70s and early '80s, ten years in the information field has been three generations, an enormous revolution since then. Our systems in the field today do not take anything like full advantage of those. So it won't be so much the development of new systems which by themselves create new military capability, it will be enabling the systems we now have to perform their functions in order of magnitude, a factor of ten more effectively, by the intelligence use of the new generation of information technology.

Q: A two-part question, the second part perhaps a little more involved. The first part is rather simple. Are airstrikes against Serbian positions in Bosnia imminent? The second part is, there seems to be a fairly high level of sophisticated

opinion in this building that airstrikes against Serbian artillery would be less than effective. The second part of the question, will there be airstrikes against other targets than Serbian artillery?

A: I'm sure you would like me to give you a statement about the imminent use of airstrikes. I am not in a position to do that. I will say what little I can say about it right now, is that airstrikes are among the options being considered now. In that consideration, I take, General Shali takes, the whole building takes very seriously the limitations of airstrikes against, first of all, artillery type targets; and secondly, any targets that are embedded in a civilian population, particularly if the person who has the equipment is deliberately embedding it next to civilian targets. The third thing we have to take absolutely into account is that there are 28,000 UNPROFOR troops on the ground over there, and any action that we take has to have full consideration in what the effect on those troops will be.

As a consequence, I can state categorically that we will not unilaterally conduct airstrikes. We may not conduct them at all, but it's absolutely clear we would neither make the decision to nor execute a decision unilaterally on any military action, including airstrikes, because of the inevitable effect of the troops on the ground.

Q: Over the weekend in Europe you posed the question if airstrikes are act one, what is act two, and what is act three? Presumably you have given some thought as to what acts two and three would have to be. Can you give us some sense of what you envision what and if you get to that point?

A: I've given profound thought to that, we've had detailed discussions on that issue as recently as a few hours ago. All I can say at this stage is that there will be a NAC meeting, the NATO Advisory Committee, and there will be a meeting of the NAC later on this week, possibly Wednesday. We will be at that meeting, we will have our proposals about what we want to be done there.

Again, we cannot act unilaterally in this area. We would have to do it in conjunction with our NATO allies. But we will not be going there simply listening to what people have to say. We will have a concrete set of proposals about how to deal with the problem.

Q: Can you give us some sense of what the parameters are for acts two and three? And are you coming under increasing pressure and decreasing resistance to act one?

A: I'm sorry, Wolf, I cannot give you any more elaboration than that at this time. By Wednesday, we will be telling the world what we believe in this area, and it does very seriously look at the act two and the act three, and also looks very

seriously at the troops that are on the ground there, and tries to take all of that into account. It's still a robust program to deal with the problems we see there today.

Q: Mr. Secretary, what do you mean by Wednesday we will be giving... Are you talking about the United States and NATO comes to a decision? Are you about ready...

A: Let me clarify. I'm talking about when the NAC meeting is. That date has not yet been set. A notional time for that date is Wednesday. Whenever that meeting takes place, we will be there and we will have a concrete set of recommendations to make.

Q: This may be running over the obvious again, but you say that airstrikes are among the options being considered, and then you say both you and this whole building take seriously the limitations that air power has. Once you run up against the wall with the limitations that air power has, how can you continue to consider airstrikes?

A: We are continuing to consider it, and we're trying to consider it in ways that minimize the problems and the limitations of airstrikes.

Q: You've been asked, and you've given answers primarily on tactical questions about airstrikes, whether they can strike artillery or whether there will be collateral damage. What is your view about whether the application of air power can help achieve our strategic objectives in Bosnia? And have a positive impact on...

A: The focus on airstrikes in your question I think is entirely inappropriate. The issue is what strategic options can be taken that could somehow accelerate the peace process and get it to a quick and satisfactory conclusion. To the extent any use at all of airstrikes furthers that strategic objective, then it is worth considering. To the extent airstrikes slow that down or put it off the track, we ought to reject them categorically. And any consideration of airstrikes or military options or any of the other proposals that are being made, will all be made in the context of what does it do to enhance and accelerate moves toward a peace negotiation, and what can it do in the meantime to minimize the violence that goes with it.

Q: The subject comes, obviously, from the Secretary General of the United Nations because of his letter, and my question to you is whether it's your view that, in fact, airstrikes could contribute to the achievement of the strategic...

A: I have seen some postulations of a peace proposal in which airstrikes are purported to play a constructive role. I have to leave it at that.

Thank you very much.

(END)